

Key Elements of the U.S. Tax System

TAXES AND THE FAMILY

Do all people eligible for the EITC participate?

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A. The IRS and Census Bureau estimate that almost 80 percent of workers eligible for the earned income tax credit (EITC) claim it. Because people eligible for higher credits are more likely to claim the credit than those eligible for lower credits, about 85 percent of potential benefits are claimed each year.

In 2020, the [earned income tax credit](#) will provide a federal tax credit of up to \$538 for workers with no custodial children and \$6,660 for workers with at least three children. Most, but not all tax units eligible for the credit claim it. The [IRS and Census Bureau estimated that almost 80 percent](#) of tax units eligible for the federal credit in tax year 2016 claimed it on their federal income tax form. Because tax units eligible for larger credits are more likely to claim the credit than people eligible for smaller credits, an estimated 85 percent of all potential benefits from the EITC were claimed.

About 5 million potentially eligible taxpayers do not claim the credit each year, resulting in about \$7 billion in unclaimed benefits annually, according to a report by the Treasury Inspector General for Tax Administration. Among eligible nonclaimants, 1.7 million filed taxes but did not claim the credit, while the other 3.3 million individuals did not file a federal tax return.

WHY DON'T ELIGIBLE TAX UNITS CLAIM THE CREDIT?

Many low-income individuals are not required to file a federal tax return because their income is below the filing threshold. Others may be unaware they qualify for refundable tax credits or for free tax preparation services, particularly if their household's financial situation has recently changed.

The credit's complexity may discourage some eligible people from claiming the EITC. Credit eligibility depends on marital status at the end of the year, earnings, income, and citizenship status. There are additional tests of relationship and residency for people with children. Eligibility can vary from year to year.

WHO FAILS TO CLAIM THE CREDIT?

[IRS researchers](#) found that EITC non-participants are more likely to be people who are:

- "Living in rural areas
- Self-employed

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- Receiving disability income or have children with disabilities
- Without a qualifying child
- Not proficient in English
- Grandparents raising grandchildren
- Recently divorced, unemployed, or experienced other changes to their marital, financial, or parental status.”

WHAT OUTREACH EFFORTS HAVE SUCCEEDED?

Research has shown that the existence of a state EITC may encourage participation in the federal EITC (Neumark and Williams 2016). Other studies have shown that reminders have some positive short-term effects (Guyton et al. 2017).

A [recent experiment in California](#), which attempted to inform people of their potential eligibility for the EITC, demonstrated limited effectiveness of outreach efforts. Though a few more people viewed online resources related to California’s EITC, the letters and texts did not result in more people filing a tax return, using a free tax preparation service, or claiming a federal or state EITC.

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Data Sources

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